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WORLD

THE UNITED STATES AND CHINA AGREE ON "PHASE 1" OF TRADE DEAL

The U.S. and China managed to agree on "phase 1" of the trade deal between both countries. Although the final text has not yet been made public –the parties would formally subscribe it in January–, official communications show that the initial agreement was mainly related to the promise of not imposing new tariffs. When to progress towards the second phase of the agreement has not been announced yet.

As a consequence, the U.S. will not apply the 25% to 30% increase in tariffs that was going to implement on Chinese products for 250 billion dollars, while China will not impose the counter-measures promised and reduce from 15% to 7.5% tariffs of imports from the U.S. for approximately 120 billion dollars – Chinese imports from the U.S. were 156 billion dollars in 2018–.

According to the USTR, phase 1 of the agreement would also contemplate chapters on the Chinese policy regarding intellectual property, technology transfer, financial service provision, the foreign exchange policy and unfair practices, and dispute settlement. On the other hand, China would increase its imports of industrial and agricultural goods, fish products, energy and services in over 200 billion dollars in two years, representing a duplication of the current figures.

Following the Peterson Institute report, if these measures are taken into account, exports from the U.S. to China will face a trade-weighted average tariff rate of 20.9%,

which used to stand at 8% before the tensions. In turn, U.S. imports from China will be reached by a 19.3% tariff, as opposed to the 3.1% present before the conflict.

WTO APPELLATE BODY STOPS FUNCTIONING

On 10 December, the WTO Appellate Body (AB) ceased working after expiration of office of two of the remaining three members, so the minimum compulsory composition of three members is not reached. As a result of this, an increasing number of countries presented once more a document summoning a selection process to fill vacancies for AB members. In the last meeting of the WTO Dispute Settlement Body, the U.S. reiterated its refusal to give consent to the appointment of new members because it states that its concerns about the functioning of the AB have not been taken into account.

A transitory solution to this problem could be that the parties decide to resort to the arbitration set forth by the Understanding on Dispute Settlements, as agreed on by the EU with Canada and Norway in July and October, respectively. Another likely alternative is that the WTO members relinquish the use of the AB, as agreed between Indonesia and Vietnam in March 2019 (DS 496).

MERGER PLANS BETWEEN PEUGEOT-CITROËN AND FIAT CHRYSLER

Fiat Chrysler Automobiles (FCA) and Peugeot-Citroën (PSA) announced the merger of their companies, which will give birth to the fourth

greatest automobile company in the world (data 2017). This piece of news is of outmost importance to Latin America, where FCA and PSA have seven production plants (two in Argentina, three in Brazil and two in Mexico). Likewise, Brazil boasts the largest FCA plant and Argentina one of the most modern PSA production platforms. The merger, that would take place within a maximum period of fifteen months, is still to be approved by the American and European competition defence authorities.

THE END OF AN ERA? BULLISH TREND IN AGRICULTURAL MARKETS

The prices of agricultural products would be resuming their growing trend. This is stated by the latest data shown by FAO : the food price index rose almost 10% between November 2018 and November 2019. In particular, this rise is sustained by the upturn in the price of beef and vegetable oils (17% and 20%, respectively).

The factors accounting for this trend are not merely a greater demand for food. Aspects related to the weather, the rise in oil prices, the depreciation of the American dollar and the African swine flu in China and South East Asia (see Global Report, July 2019) have also had a strong influence. In addition, the uncertainty regarding the evolution of these markets has been lately heightened by the effects of the trade tensions between the U.S. and China; this has given rise to important markets distortions –mainly in those of oilseeds and derivatives– and

pushed exporters to change the type of sowing and destination of their products.

The effect of the rise in the international food prices is already hitting hard domestic prices in India, China and Turkey. According to Nomura's Food Vulnerability Index (NFVI), while 26 of the 50 economies that are least vulnerable to the increase in food prices are advanced, 46 of the 50 most vulnerable economies to said rise are developing countries.

DISAPPOINTMENT AT THE CLIMATE CHANGE CONFERENCE

Disappointment is the common denominator of the results obtained at the 25th United Nations Climate Change Conference (COP25) held in Madrid in December 2019. According to António Guterres, Secretary General of the United Nations, “an important opportunity to show greater ambition in mitigation, adaptation and financing” was lost.

Patricia Espinosa, Executive Secretary of the UN Framework on Climate Change, detailed the main shortcomings in the conference: no agreement has been reached on the functioning of the carbon market; developed countries have not improved their support to developing countries in matters of financing and technology transfer, and the major emitters have not shown any willingness to increase the level of commitment to the cause. The COP25 has indeed managed to reach consensus in the willingness to improve the capacity of adaptation of the most vulnerable countries.

EUROPE

THE EU DISCUSSES ITS GREEN DEAL

Days after the new authorities of the European Commission took office on 1 December, President Úrsula von der Leyen introduced one of the core pieces of the Guidelines for her new Mandate: the European Green Deal (EGD), with which she seeks to make the EU carbon neutral by 2050. This deal includes a long list of initiatives, among them: the implementation of mechanisms for clean energy production, biodiversity protection, sustainability policies in industry and construction, and plans for the implementation of sustainable food production systems.

During the EGD discussions, Poland and other countries in Eastern Europe, demanded exceptions and/or aid in order to accept the conditions of the industry's conversion programmes implied by the deal. So that progress can be made in terms of this request and contemplate the budget concessions necessary to guarantee said aid, another EGD summit is expected to be held next June once the EU budget framework for 2021-2027 has been closed.

In December, the EC also discussed the presence of likely discrepancies between the texts of the EU-Mercosur agreement and the EGD. The call to debate this point is framed within some European countries' concern about the environmental policy of the Latin American bloc in general and of Brazil in particular. Although the debate has not been conclusive, Phil Hogan, the European commissioner for Trade, stated to the press that the bi-regional agreement should be

considered a tool to guarantee that the European standards spread to other parts of the world.

BREXIT WITHOUT RETURN: THE CONSERVATIVE PARTY WINS THE ELECTIONS

The general election in the UK was held on 12 December. The result: the Conservative Party surpassed the 326 seats necessary to reach the absolute majority in the House of Commons in the Palace of Westminster and obtained the amplest majority achieved since Margaret Thatcher's office. The party led by Boris Johnson obtained 43.6% of the votes as opposed to the Labour Party. Thus, with this victory, Johnson –who had been appointed Prime Minister in July through an internal election of his party– confirmed his mandate in government, intending to achieve the Brexit on 31 January “with no conditions or quibbles” as his main mission.

The anti-Brexit spirit did in fact prevail in the results of Scotland and Northern Ireland's elections, where the Nationalist parties obtained the majority of votes. As a result, a week after the elections, Scotland's Prime Minister, Nicola Sturgeon, submitted her formal proposal to Johnson so that he could accept to negotiate a new independence referendum. As expected, this request was rejected.

On the other hand, the conservative leader submitted to Parliament the draft for the exit from the EU last December. This has already been approved by the House of Commons and the parliamentary formalities are expected to be finished by the first weeks of

January, as well as the ratification by the European Parliament in its meeting of 29 January. After this, it is for sure that the transition period contemplated in the withdrawal agreement will not be postponed further than the end of 2020.

The confirmation of the Brexit of 31 January then implies that during the remaining months of the year, trade between the EU and the United Kingdom will continue to be normal and that the citizens will be able to move freely between countries;

nevertheless, the United Kingdom will no longer have a representation at the Council of the European Union or at the European Parliament. Meanwhile, Johnson's government will advance in the preparations for the Brexit and will surely start negotiating trade agreements with the U.S. and the EU. The members of the European bloc are skeptical with respect to the possibility of agreeing on a comprehensive deal by 2021, which gives some solution to the continuity in all the legislations currently in force with the United Kingdom.

SOUTH AND CENTRAL AMERICA

LATIN AMERICA AND THE CARIBBEAN: SCANT GROWTH AND FALL IN EXPORTS

According to Cepal estimates, the economies of Latin America and the Caribbean decelerated during 2019 and would end the year with an average 0.1% growth, as opposed to the 1% obtained in 2018. If analysed by subregion, South America is estimated to decrease 0.1%, while the Caribbean and Central America will grow 1.4% and 2.4%, respectively. This deceleration trend originated in 2014 and, in spite of the growth estimations for the year 2020 (1.3%), it gives rise to the worst seven-year period in the last 40 years.

In line with this outlook, the Inter-American Development Bank (IDB) estimated that exports in the region will contract 2.4% in 2019 (7.2% in South America), driven by the fall in prices of basic products and a reduced demand in the main markets. Imports, in turn, will be even more reduced, to 3.1%, as a proof of the economic cooling in the region.

NEW AUTOMOTIVE AGREEMENT BETWEEN BRAZIL AND PARAGUAY

Within the framework of the 55th Mercosur Summit, where the countries of the bloc made several commitments (among them, signing the Agreement of mutual certificate recognition of digital signatures), Brazil and Paraguay announced the conclusion of the negotiations of their automotive agreement, which builds up on the effort to set up a policy on said sector at Mercosur level.

This agreement, which is expected to be signed in January 2020, will consolidate the free trade of vehicles and auto parts immediately for Paraguay and with exceptions –gradual exemptions until 2022– for Brazil. Also, it will give the Paraguayan products manufactured under the maquiladora regime a preferential Regional Content Index (RCI) that will be gradually increased from 40% in 2020 to 50% in 2027 and will be subject to export quotas (from US\$ 350 million to US\$ 750 million, respectively). Finally, there will be

preferential access for both countries for 1,000 units of vehicles for the transport of people with an even more reduced RCI (RCI of 30% for Paraguay and 35% for Brazil).

CHINA OPENS ITS MARKET TO ARGENTINE LEMONS

After 15 years of technical negotiations with China, the Argentine government announced the signing of a sanitary protocol that will

enable exports of lemons to China, with previous oversight and auditing of the facilities by the Chinese authorities. At the present time, Argentina is the fourth producer of lemons in the world (9% of the global demand) and it is the first processor of their by-products. Said product, which concentrates in almost 80% of the province of Tucumán, accounts for 40% of the total surface cultivated with citrus fruits.

NORTH AMERICA

U.S. HOUSE OF REPRESENTATIVES APPROVES USMCA

On Thursday 19 December, the U.S House of Representatives, with democrat majority, approved the new Agreement between the United States, Mexico and Canada (USMCA), giving a crucial step towards its ratification.

The proposed legislation to implement the USMCA had great support of both parties in the low chamber, with 385 votes in favour and 41 in opposition to it. To enter into force, it must still be approved by the Senate, dominated by Republicans. Although the date for its consideration in the upper chamber has not been fixed yet, it is expected to be dealt with during the first quarter of 2020.

The USMCA was signed on 30 November 2018 and ratified by Mexico in June 2019. Its confirmation by the U.S. Congress was delayed because the democrat legislators demanded modifications to strengthen the enforcement of the labour reform in Mexico, incorporate provisions related to environmental protection and to the

intellectual property rights of pharmaceuticals, apart from introducing changes in the dispute settlement process (see Global Report, December, 2019). After several months of negotiations, amendments and a new protocol were signed by the three countries on 10 December in Mexico City.

The final version of the USMCA was already ratified by the Senate of Mexico on 12 December, while in Canada, the legislators will not resume their activities until the end of January 2020 due to the winter recess, for which reason it is estimated that the Canadian Parliament would conclude approving the deal in April 2020.

CANADA INITIATES AN ANTIDUMPING INVESTIGATION CONCERNING OIL PUMP SUCKER RODS

The Canadian International Trade Tribunal initiated an investigation to determine if companies in Argentina, Brazil or Mexico are carrying out anti-dumping practices in exports of pump sucker rods employed in the oil industry. Canada is the fourth greatest

global producer of crude oil, and the main producer of pump sucker rods in the

countries under investigation belongs to the Techint group.

ASIA AND AFRICA

CHINA AND RUSSIA STRENGTHEN ENERGY RELATION

Presidents Vladimir Putin and Xi Jinping inaugurated a 2,200 kilometre stretch of the first gas pipeline that will connect both countries and that will be called “Power of Siberia”. The companies Gazprom and PetroChina will be the two corporations to manage this strategic partnership that will make it possible to dispatch 38 billion cubic metres of natural gas a year during 30 years to China, amounting to almost 10% of their consumption. The following stage, that will have a length of 800 kilometres, is estimated to be finished by 2022-2023.

Russia has managed to diversify its energy supply and create closer ties with China when the U.S. government is raising its voice against Nord Stream-2 gas pipeline, which links Russia with Germany, and is asking the European countries to reduce their dependence on the energy coming from said country.

THE CHINESE GOVERNMENT SUCCEEDS IN CURBING PORK PRICE APPRECIATION

The price of pork continued decelerating in the second week of December as a result of the measures adopted by the Chinese authorities to offset the effects of the African swine fever: production subsidies have increased and the availability of frozen beef reserves in the market has been broadened.

According to the Ministry of Agriculture and Rural Affairs of the People’s Republic of China, between 9 and 13 December, in 16 Chinese regions, the average price of pork was US\$ 6.3 per kilo, a 1.8% reduction with respect to the previous week, after having peaked in the month of November. It is worth noting that the general price index in China rose to 4.5% in November, boosted by the high price of pork which increased 101.3%.

CHINA LAUNCHES INDEX OF CHINESE-LATIN AMERICAN COOPERATION

The China-CELAC Forum announced that the Latin American Institute of the Chinese Academy of Social Sciences launched an index of trade and economic Chinese-Latin American cooperation that is expected to act as an input for analysis for the Chinese companies that wish to invest in Latin America. The index is composed of two subindexes: one that measures the business environment of the Latin American countries (political, macroeconomic, social and trade aspects, among others), and another that assesses the progress of the bilateral cooperation between China and the region (following data of political, trade and financial cooperation, to mention some). The first results published indicate that the countries best scored are Brazil, Mexico, Chile and Argentina.



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